



HENGYUAN REFINING COMPANY BERHAD
196001000259 (3926-U)

BOARD AUDIT COMMITTEE
TERMS OF REFERENCE

Contents

1.	PURPOSE.....	3
2.	COMPOSITION AND APPOINTMENT.....	3
3.	AUTHORITY.....	4
4.	FUNCTIONS AND DUTIES	5
5.	MEETINGS.....	8
6.	ANNUAL PERFORMANCE ASSESSMENT	11
7.	REVIEW OF THE TERMS OF REFERENCE	11

1. PURPOSE

- 1.1 The Board Audit Committee ("BAC") of Hengyuan Refining Company Berhad (the "Company") is established as a sub-committee of its Board of Directors (the "Board") with the following primary objectives:
- 1.1.1 To bring transparency, focus and independent judgment required in assisting the Board in fulfilling its statutory and fiduciary responsibilities of monitoring the Company's management of financial risk processes, and accounting and financial reporting practices.
 - 1.1.2 To review business processes, the quality of the Company's accounting function, financial reporting and the system of internal controls.
 - 1.1.3 To ensure proper internal controls are implemented and to enhance the independence of both the external and internal audit functions by providing direction to and oversight of these functions on behalf of the Board.

2. COMPOSITION AND APPOINTMENT

- 2.1 The BAC members shall be appointed by the Board from amongst their number and shall consist of not less than three (3) members, all of whom shall be Independent Non-Executive Directors.
- 2.2 All members of the BAC should be financially literate and:
- (i) have the ability to read and understand financial statements, including the Company's statement of financial position, statement of comprehensive income, and cash flow statement;
 - (ii) be able to effectively analyse financial statements and ask pertinent questions about the Company's operations against internal controls and risk factors;
 - (iii) be able to understand and interpret the application of approved accounting standards and other related requirements; and
 - (iv) are expected to undertake continuous professional development to keep abreast of relevant developments in accounting and auditing standards, practices and rules.
- 2.3 At least one (1) member of the BAC shall be a member of the Malaysian Institute of Accountants or shall fulfil such other requirements as prescribed in the Main Market Listing Requirements ("MMLR") of Bursa Malaysia Securities Berhad ("Bursa").
- 2.4 No alternate Director shall be appointed as a member of the BAC.
- 2.5 The Chair of the BAC, who shall not be the Chair of the Board, shall be an Independent Non-Executive Director elected by the BAC members and appointed by the Board. He shall act as the key contact between the members of the BAC and the Board as well as senior management and the external auditors. In the absence of the Chair, the meeting shall be chaired by an Independent Director.

- 2.6 The BAC members may relinquish their membership in the BAC with prior written notice to the Board. Any vacancies resulting in non-compliance with the Listing Requirements shall be filled as soon as possible, but not later than three (3) months from the arising vacancy.
- 2.7 A former partner of the external audit firm and/or the affiliate firm (including those providing advisory services, tax consulting, etc) of the Company shall be subject to a minimum of at least three (3) years cooling-off period before being appointed as a member of the BAC.
- 2.8 The BAC shall have the authority to review and approve the appointment, replacement or removal of the Company's Chief Internal Auditor ("CIA") who shall report directly to the Chair of the BAC. The CIA shall be responsible for developing a suitable risk based internal audit program that can give stakeholders assurance that business controls are operating effectively and efficiently. The CIA shall work with the external auditors and any other approved vendors to optimise the audit scope and areas of coverage in any given period.
- 2.9 The BAC shall have the services of the Company's Legal Department and Risk and Integrity Officer who shall report periodically to the BAC on the status of the Company's compliance to the MMLR and on the status of the Company's compliance to all rules set out by the Securities Commission Malaysia, Companies Commission of Malaysia, Central Bank of Malaysia and any other regulators governing the Company's business and operations.

3. AUTHORITY

- 3.1 The BAC is authorised by the Board and at the expense of the Company to perform the following:
- 3.1.1 Secure the resources in order to perform its duties as set out in this Terms of Reference.
- 3.1.2 Investigate any activity within this Terms of Reference and shall have direct communication channels with senior management, CIA and the Company's external auditors.
- 3.1.3 Have full and unrestricted access to information pertaining to the Company, their records, properties and personnel which are required to perform its duties and all employees are directed to cooperate with any request made by the BAC.
- 3.1.4 Obtain external legal or other independent professional advice as necessary.
- 3.1.5 Convene meetings with the Company's external auditors without the attendance of any executive, and if appropriate, the Company Secretary, whenever deemed necessary.
- 3.2 The BAC shall report to the Board on matters considered and its recommendations thereon, pertaining to the Company.

4. FUNCTIONS AND DUTIES

The main functions and duties of the BAC shall include, but are not limited to the following:

4.1 Financial Reporting

4.1.1 Review the quarterly results and annual financial statements of the Company with the senior management and the external auditors focusing on the matters set out below, prior to approval by the Board:

- (i) any change in accounting policies and practices, and its implementation;
- (ii) significant adjustments arising from the audit;
- (iii) significant matters highlighted including financial reporting issues, significant judgments made by management, significant and unusual events or transactions, and how these matters are addressed;
- (iv) the going concern assumption;
- (v) major judgmental areas;
- (vi) the appropriateness of senior management's selection of accounting policies and disclosures in compliance with accounting standards and regulatory requirements;
- (vii) assess solvency test of the Company and the Group, if necessary;
- (viii) provide advice on whether the financial statements taken as a whole provide a true and fair view of the Company's financial position and performance; and
- (ix) propose best disclosure requirements of financial results and annual reports in line with the principles set out in the Malaysian Code of Corporate Governance ("MCCG"), and requirement of the MMLR, approved accounting standards and other applicable laws.

4.1.2 Review with the external auditors the audited financial statements of the Company for the purpose of approval prior to presentation to the Board for adoption, for the following:

- (i) whether the auditor's report contained any qualifications which must be properly discussed and acted upon;
- (ii) whether there is any significant changes and adjustments in the presentation of financial statements;
- (iii) whether it is in compliance with applicable laws and accounting standards;

- (iv) whether there is any material fluctuations in balances;
- (v) whether there is any significant variations in audit scope and approach; and
- (vi) whether there is any significant commitments or contingent liabilities.

4.1.3 Discuss problems and issues arising from the interim and final external audits, final letters of recommendation to the senior management, including senior management responses and the external auditor's evaluation of the system of internal control and any other matters the external auditors may wish to discuss in the absence of the senior management, where necessary.

4.1.4 Provide the Board with assurance on the quality and reliability of financial information used by the Board and of the financial information issued publicly by the Company.

4.2 Internal Controls

4.2.1 In relation to internal controls:

- (i) Oversee the internal controls framework to ensure operational effectiveness and adequate protection of the Company's assets from misappropriation.
- (ii) Review, challenge, evaluate and approve, with CIA to the extent deemed appropriate by the BAC and senior management, the audit plan and audit methodology to ensure robustness, integrity and effectiveness of the Company's internal control system and management information systems, the Company's financial auditing and accounting organization and its personnel, and compliance with applicable laws, rules, corporate governance requirements and guidelines.
- (iii) Review the adequacy of the scope, functions, competency, experience, resources, independence and authority of the internal audit function in carrying out its work.
- (iv) Ensure co-ordination between the internal and external auditors.
- (v) Review major findings reported by the internal audit and follow up on senior management's implementation of the recommended actions.
- (vi) Recommend to the Board, the Statement on Risk Management and Internal Control and any changes to the said Statement.
- (vii) Annually review and assess performance of the members and the services provided by the internal audit function.
- (viii) Monitor the duties of the Company's internal audit team and ensure that the internal audit team has direct access and report directly to the BAC.

4.3 Dealings with External Auditors

- 4.3.1 Recommend to the Board the appointment or re-appointment of the external auditors and to fix their fees (audit and non-audit), after reviewing their suitability, resources, competency and independence and effectiveness of the external audit process.
- 4.3.2 Review the following and recommend the same to the Board:
- (i) letter of resignation from the external auditors or proposal for their dismissal, including a copy of any written representations or statement of circumstances in relation with the resignation made by the external auditors, if applicable; and
 - (ii) whether there is reason (supported by grounds) to believe that the external auditors are not suitable for re-appointment.
- 4.3.3 Establish policies and procedures to assess, on an annual basis, the suitability, objectivity and independence of the external auditors. Such assessment will take into consideration factors such as:-
- (i) the competence, audit quality and resource capacity of the external auditors in relation to the audit;
 - (ii) information contained in the external auditor's annual transparency report;
 - (iii) the nature and extent of the non-audit services rendered and the appropriateness of the level of fees; and
 - (iv) obtaining assurance from the external auditors confirming their independence throughout their audit engagement in accordance with all professional and regulatory requirements.
- 4.3.4 Establish policies and procedures to approve non-audit services to be rendered by the external auditors and its affiliates.
- 4.3.5 Annual evaluation on the performance of the external auditors by the management and the BAC.
- 4.3.6 Discuss the following with the external auditors prior to commencement of the audit:
- (i) the nature and scope of audit plan;
 - (ii) the audit strategy and plan for the year;
 - (iii) co-ordination of audit where more than one audit firm is involved;
 - (iv) the BAC member's insights, views and concerns on relevant transactions and any matters that may have an effect on the financial audit;
 - (v) evaluation of the system of internal controls;
 - (vi) effectiveness of the management information system including any suggestions for improvement and senior management's response; and
 - (vii) the audit report.

4.4 Related Party Transactions ("RPT"), Recurrent RPT and Conflict of Interest ("COI")

- 4.4.1 Establish policies and procedures for the purposes of identifying, evaluating, approving, disclosing, reporting and monitoring COI situations that arose, persist or may arise within the Company or group, including any transaction, procedure or course of conduct that raises questions on management's integrity, and the measures taken to resolve, eliminate or mitigate such conflicts;
- 4.4.2 Establish comprehensive procedures for identifying, evaluating, approving and reporting all RPT and RRPT;
- 4.4.3 Review and establish whether all RRPT have been carried out in accordance with the mandate approved by the shareholders and are on commercial terms not more favourable to the related parties than those available to the public; and
- 4.4.4 Review all non-recurring transactions or corporate proposal with related parties to ensure that they are carried out in the best interests of the Company and are not detrimental to the minority shareholders and recommended to the Board for approval.

4.5 Other Matters

- 4.5.1 Prepare an audit committee report at the end of the financial year pursuant to the MMLR.
- 4.5.2 Ensure that proper processes and procedures are in place to comply with all laws, regulations and rules established by all relevant regulatory bodies and which could have a significant impact on the Company's financial statements.
- 4.5.3 Ensure that any matter which results in a breach of the MMLR is reported to Bursa if it has not been satisfactorily resolved.
- 4.5.4 Highlight such matters as the BAC considers appropriate and undertakes any such other functions as may be determined by the Board from time to time.

5. MEETINGS

5.1 Frequency

- 5.1.1 The BAC shall meet at least four (4) times in a financial year, usually preceding the Board meetings. In addition, the Chair of the BAC may call for additional meetings at any time at his/her discretion.

Other members of the Board and management may attend the meetings to assist and provide pertinent information upon the invitation of the BAC.

5.1.2 The Company's Chief Executive Officer, Chief Financial Officer or Financial Controller ("FC") (in the absence of CFO) and Chief Internal Auditor shall attend the quarterly meetings although they do not have any voting rights.

5.1.3 At least twice a year, the BAC shall meet with the external auditors and CIA without the presence of any board members and management.

5.2 Notice and Agenda

5.2.1 The Company Secretary shall issue and circulate the notice of BAC meetings confirming the venue, time and date at least five (5) working days before each meeting to the BAC members and all those who are required to attend the meeting.

5.2.2 The agenda for each BAC meeting including relevant documents and information shall be circulated at least five (5) working days before each meeting to the BAC members and all those who are required to attend the meeting.

5.2.3 The agenda shall be the responsibility of the Chair with input from the members. Where necessary, the agenda shall include input from the senior management.

5.2.4 The Chair may also invite other members of senior management and other persons to participate in this process, if necessary.

5.3 Quorum

5.3.1 The quorum for a meeting of the BAC shall be two (2) members, the majority of members present must be Independent Directors.

5.3.2 In the absence of the Chair or if he is not present at BAC meeting within fifteenth (15) minutes of the time appointed for holding the same, the members present shall elect a Chair amongst themselves to chair the meeting.

5.4 Meeting Mode

5.4.1 A meeting shall normally be conducted face-to-face to enable effective discussion. However, meetings may also be conducted at two or more venues within or outside Malaysia using any technology such as telephone conferencing, video conferencing or other appropriate means as determined by the BAC.

5.4.2 A virtual meeting shall be deemed to constitute a BAC meeting provided the following conditions are met:

- (a) all BAC members for the time being entitled to receive notice of the BAC meeting shall be entitled to receive notice of a virtual meeting, stating an appropriate form of technology (or in such other manner); and

- (b) a BAC member shall not leave a virtual meeting by disconnecting from the technology used unless he/she has clearly notified the Chair in advance of his/her intention to leave the meeting, and a BAC member shall be conclusively presumed to be present and shall at all time formed part of the quorum during such a meeting until such notified time of his/her leaving the meeting.

5.4.3 The BAC may from time to time and if deemed appropriate, consider and approve and/or recommend relevant matters via a written resolution in writing, in lieu of formally convening a meeting. The written resolution shall be as valid and effectual as if it has been passed by a meeting of the BAC duly convened. Approval of the BAC obtained by a written resolution must be signed or approved by all BAC members subject to 5.5.2.

5.5 Voting

- 5.5.1 All resolutions of the BAC shall be decided by a simple majority vote, each member having one vote. In case of equality of votes, the Chair of the BAC shall have a second or casting vote.
- 5.5.2 A BAC member is required to abstain from deliberations and voting in respect of any matter which may give rise to an actual or perceived conflict of interest situation.

5.6 Meeting Minutes

- 5.6.1 The minutes of the meeting shall faithfully record the deliberations and decisions of the BAC. The minutes shall include compiled instructions as matters arising for discussion at each BAC meeting to ensure proper follow through.
- 5.6.2 Minutes (in draft form) shall be circulated to BAC for comments within 10 working days of the meeting. Minutes (in final draft form) shall be distributed to the BAC members at least 5 working days before the following meeting and shall be approved by the Chair of the meeting at which the proceedings are held or by the Chair of the next succeeding meeting.
- 5.6.3 Copies of minutes of each meeting shall be distributed to all members of the Board. The BAC, through its Chair, shall update the Board on the activities undertaken by the BAC at each Board meeting. Any recommendations to the Board for approval, the Committee shall provide such background and supporting information as may be necessary for the Board to make an informed decision.

5.7 Company Secretary

- 5.7.1 The Company Secretary (or any one or more, if more than one company secretary) or such other approved person shall be the secretary of the BAC.
- 5.7.2 The Company Secretary shall organise and provide assistance at the BAC meetings and carry out the following key responsibilities:

- (i) Ensure meetings are arranged and held accordingly;
- (ii) Assist the Chair in planning the BAC's activities;
- (iii) Draw up meeting agendas in consultation with the BAC Chair and maintain the minutes and draft its scheduled activities for the financial year;
- (iv) Ensure structured communication channels between the Board and the BAC;
- (v) Ensure collation and distribution of information required by the BAC;
- (vi) Provide advice on governance and compliance matters to the BAC as well as practical support, whenever needed;
- (vii) Ensure proceedings of meetings are recorded and the minutes circulated in a timely manner, and reviewed by the BAC before disseminating them to the Board; and
- (viii) Ensure BAC recommendations presented to the Board are supported by papers that explain the rationale for the BAC's recommendations.

6. ANNUAL PERFORMANCE ASSESSMENT

- 6.1 The Board Nominating and Remuneration Committee ("BNRC") shall assess the effectiveness of BAC in carrying out the duties as set out in this Terms of Reference and report the results to the Board, recommending any changes it deems necessary for the Board's approval.
- 6.2 The composition, performance and effectiveness of the BAC and each of its members shall be reviewed by BNRC annually to ensure that the BAC has the right composition, and sufficient, recent and relevant skills and expertise to effectively fulfil their roles.
- 6.3 All such reviews and assessments shall be properly documented.

7. REVIEW OF THE TERMS OF REFERENCE

- 7.1 The BAC shall review and recommend any changes to its terms of reference in such manner as the BAC deem appropriate to the Board for approval and where necessary, to obtain the assistance of senior management, CIA and the Company's external auditors. This Terms of Reference shall be assessed, reviewed and updated where necessary i.e. when there are changes to the MCCG, MMLR or any other regulatory requirements. It should also be reviewed and updated when there are changes to the direction or strategies of the Company that may affect the roles of BAC.